

**Alabama Trust Fund  
Board of Trustees Meeting  
November 20, 2014  
State Capitol, N-202**

Pursuant to public notice, a meeting of the Alabama Trust Fund Board of Trustees was held on November 20, 2014. The meeting was called to order at 10:10 AM by Vice Chair Newton. The roll was called by Secretary Boozer and recorded as follows without a quorum present.

**Present:**

Mr. Bill Newton, Vice Chair  
Mr. Young Boozer, Secretary  
Dr. Sandra Sims-deGraffenried  
Mr. Guice Slawson, Jr

**Absent:**

Governor Robert Bentley, Chair  
Mr. Daniel Hughes  
Mr. Sam Upchurch  
Mr. Terry Bunn  
Mr. Rich Bielen

Mr. Boozer reviewed the quarterly financial reports. He noted assets of \$2.93 billion are slightly higher than at June 31, 2014. Quarterly revenues of \$74.7 million were offset with quarterly distributions of \$68.5 million. Royalty payments were slightly increasing at \$23.2 million for the quarter, and \$87.2 million fiscal year-to-date. Mr. Boozer noted that Education Trust Fund repaid \$330 million during FY2014 and the remaining balance of \$92.5 million would be due by the end of July 2015. Mr. Newton stated that it would be repaid timely. Other reports were reviewed.

Ms. West presented the quarterly investment performance measurement report and market overview. She noted that it was a very volatile quarter for most asset classes. Third quarter GDP growth was very strong and consumer spending and sentiment was up. The unemployment rate was below 6% with previously discouraged workers re-entering the job market. She also noted the domestic equity and fixed income markets were doing better than international equity and fixed income. For the year domestic equity and fixed income markets did well with the S&P 500 index returning 19.73% and the Barclay's Aggregate index returning 3.96%.

In comparing the actual ATF asset allocation to the target asset allocation, Ms. West noted a slight underweight to real estate, but still within the rebalancing ranges. She noted that there was a capital call with UBS real estate at the end of the quarter which brings the overall real estate allocation closer to the long-term target allocation. Now that UBS has been funded, the target asset allocation will be changed effective next quarter to reflect the long-term target asset allocation that is shown in the investment policy statement. The quarterly total fund return of negative 1.13% is higher than the target return of negative 1.38% with the international equity managers and small cap equity managers adding value. The one year total fund return of 8.48% is 0.09% below the benchmark return. The manager effect was the driver behind the outperformance over the 5-year period, with the fund up 8.95% versus the target return of 7.96%. Total invested assets decreased slightly from June as a result of an investment return of a negative \$28.6 million and \$40.9 million in draw outs during the quarter.

Ms. West reviewed the quarterly returns. CS McKee continued to struggle for another quarter; however, they have outperformed since inception. Both small cap managers, Atlanta Capital and Smith Group, outperformed their respective benchmarks. GMO continued to underperform since inception when compared against its benchmark. Sterne Agee outperformed the benchmark by 80 basis points but continued to trail the over the 1, 3, and 5 year periods. Under real estate, it was noted that neither Angelo Gordon nor Heitman have yet been fully funded.

Ms. West reviewed the October flash report noting that almost all the markets across the board had positive returns for the month. The fund had a total return of \$29.7 million. This left the total fund just above \$2.5 billion. Ms. West noted that there was significant activity with the international equity managers. This was caused by the termination of two managers and the hiring of four new managers. She also noted that CsMckee and GMO continued to underperform.

The next order of business was to review the Blackrock transition reports. Ms. West reminded the Board that Blackrock was hired to transition the assets from Thornburg and Batterymarch to the newly hired international managers in both the Alabama Trust Fund and the County & Municipal Government Capital Improvement Trust Fund. Ms. West stated that the transition went smoothly and that the total cost fell within the estimate given by Blackrock.

The next order of business was to review the investment performance of the County & Municipal Government Capital Improvement Trust Fund ("CMT"). The full quarterly investment report was emailed to the Board, and summary information reviewed at the meeting. Ms. West noted that the assets of \$455 million recorded a total quarterly fund return of a negative 1.11 % to the benchmark of negative 1.61%. The over performance was primarily a result of the manager effect adding 50 bps, primarily from the international equity managers. The fiscal year to date total fund return is good at 8.04%. The October flash report was also reviewed. Ms. West noted that the portfolio had \$5 million in realized and unrealized gains for the month.

Portfolio manager Gerry Colleary of Wells Capital presented to the Board. Mr. Colleary noted emerging markets have been very volatile since the end of 2013 driven by top down macro events. He also noted that during that time Wells had underperformed when compared to the benchmark. Mr. Colleary noted that they were focused on the fundamentals of the investments and had outperformed the benchmark in the last quarter and month of October.

There being no further business, the meeting was adjourned at approximately 11:30 am.

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Bill Newton, Vice-Chair

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Young Boozer, Secretary